

14. Banking Supervision

To ensure the safety and soundness of financial institutions and to maintain the stability of the financial system, the Bank not only strengthens bank examination, but also cooperates with the Ministry of Finance to review the current system of financial regulation and supervision. Particular emphasis was given to the following activities.

The Development of Regulatory Consolidation

As financial organizations providing multiple products have become a trend in the international financial arena, many countries have consolidated their regulatory agencies in order to function more effectively. This reform was also advanced in Taiwan. The Financial Supervision Commission Act, which proposed a unified supervisory authority to assume overall responsibility for supervising all financial institutions, was passed by the Legislative Yuan on July 10, 2003. The Act will be implemented from July 1, 2004 onward. In the proposed revision of the Central Bank of China Act, which is currently under the legislative process, the Bank still retains the power to carry out target examinations for financial institutions whose business was regulated by the Central Bank Act, in order to monitor activities that may hamper the effectiveness of monetary policy or jeopardize financial stability.

Promoting Overall Financial Reforms

Besides giving consent to regulatory consolidation, the Bank prepared reports related to financial reconstruction, wherein proposals were provided about prompt corrective action on problem financial institutions, reconstruction of community financial institutions, promoting corporate consolidation, and a new regime for loan loss reserve provision. Moreover, problems regarding cross-strait banking were explored. After one year's effort, the Financial Reform Task Force established by the Executive Yuan produced their final reports in July 2003. The Bank participated in the Task Force to study, propose and promote overall financial reforms.

Enhancing Off-site Monitoring

To enhance banks' asset quality control, the Bank required local banks to file non-performing loan records on a monthly basis. To enhance liquidity management of financial institutions, the Bank required them to report the term structure of assets and liabilities denominated in NT dollars on a quarterly basis. Moreover, in compliance with the financial statistics of the

Bank for International Settlements, the Bank compiled country risk exposure statistics and adopted an on-line reporting system.

Besides the above information, the Bank collected data such as banks' loan loss reserve provisions, banks' purchases of convertible bond, credit card and cash card business, country risk exposures, and financial derivative products. These data, together with systematic analysis and evaluation of banks' business, financial conditions and compliance with regulations, could help detect early warning signals for banking problems.

Implementing On-site Examination

The Bank, the Ministry of Finance, and the Central Deposit Insurance Corporation shared the responsibility to conduct regular on-site examinations in Taiwan. In addition, target examinations were also conducted to accommodate the implementation of monetary policy, with information from off-site examinations, important financial incidences and contingencies, and letters of accusation serving as the reference material.

To conform to the international practice of consolidated supervision, the Bank enhanced its supervision of the overseas branches of domestic banks. In 2003, the Bank sent its staff to the U.S. and Hong Kong to conduct on-site examinations, and also visited six local financial supervisory authorities to share information and exchange experience.

Monitoring the Improvements and Supervising the Internal Auditing of Banks

The Bank monitored the improvements made by banks in response to the Bank's examination opinions. Besides regularly monitoring banks' corrective measures as reported in writings, on-site monitoring for apparently flawed events were conducted on a quarterly basis.

The Bank supervised and evaluated banks' internal auditing and control systems, based on the guidelines for evaluating the internal auditing of local banks, investment and trust companies, and bills finance companies. The results of such evaluations served as an important reference for the Bank and the Ministry of Finance to approve those financial institutions' plans to expand their businesses or branches.

Other Important Measures

- (1) In order to monitor financial institutions' sale of problem assets, the Bank set up the Checking Items and Classification Principle for the Sale of Criticized Assets to Asset Management Companies.

- (2) In response to the establishment of the Financial Crime Investigation and Supervision Team by the Prosecutors' Office of the Taiwan High Court, the Bank seconded its staff to the Team to help investigate cases involving financial crimes.

